

**Qwest**

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Melissa E. Newman

Vice President – Federal Regulatory

August 30, 2004

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A325
Washington, DC 20554

RE: CC Docket Nos. 93-193 and 94-65 -- Report of Qwest Corporation

Dear Ms. Dortch:

This letter represents Qwest Corporation's ("QC") response to the *Order* of the Federal Communications Commission ("Commission") in the above-captioned dockets.¹ The *Order* found that the failure of various local exchange carriers ("LECs") to make add-back adjustments to their reported rates of return in their 1992 and 1993 tariff filings, and to apply these adjustments to their 1993 and 1994 annual tariff filings, constituted an "unreasonable practice" under the Commission's rules. Accordingly, these LECs were directed to make add-back adjustments on a retroactive basis, to recalculate the interstate sharing amounts which should have been reflected in their 1993 and 1994 annual access tariff filings, and to submit a "refund plan" for distributing recalculated sharing amounts to carriers who had purchased access from them from July 1, 1993 to June 30, 1995, to the extent that they would have received such "refunds" by way of add-back related reduced rates in the 1994 annual access tariff filings. QC's access tariffs were part of the tariff investigation and QC is a party to the *Order*.²

As will be demonstrated herein, retroactive add-back calculations for the relevant time periods result in an additional sharing related to the 1994 annual access filing (the only relevant year for QC) of \$1,594,000. QC recalculated its sharing obligations that would accrue based on consideration of this add-back amount. For QC's 1994 annual tariff filing, QC's Price Cap Indices ("PCIs") exceeded its Actual Price Indices ("APIs") by \$46,586,062. Recalculating the 1994 annual filing to take into account the \$1,594,000 add-back amount (after proper adjustments), the differential between the QC PCIs and APIs for the 1994 annual filing was

¹ *In the Matter of 1993 Annual Access Tariff Filings, 1994 Annual Access Tariff Filings, Order*, CC Docket Nos. 93-193 and 94-65, FCC 04-151, rel. July 30, 2004 ("*Order*").

² At the time all relevant tariffs were filed and examined, the relevant tariffs were filed by U S WEST Communications, Inc. On July 1, 2000, as a result of a merger, U S WEST Communications became Qwest Corporation. For purposes of this response, QC and U S WEST Communications are the same entity.

\$44,979,759. Accordingly, taking the add-back amount into account for the 1994 annual tariff filing, the filing was well within the price cap limits and no additional adjustments or refunds are appropriate or necessary.

QC accordingly does not propose any refunds.

QC's calculations are as follows.

Attachment 1 is pages 1 and 2 of QC's Final 492A Form for calendar year 1991, filed March 31, 1993. A sharing amount of \$5,624,000 for the final report is shown in line 6. This sharing amount was reflected in the 1993 QC annual access filing.

Attachment 2 is pages 1 and 2 of the Final 492A Form for calendar year 1992, filed March 31, 1994. No sharing is reflected on this report, indicating no add-back implications from 1992.

Attachment 3 is pages 1 and 2 of the Initial 492A Form for calendar year 1993, filed April 22, 1994. This form reflects (line 6) a sharing amount of \$12,231,000. This amount was reflected in the 1994 annual access tariff filing as a sharing adjustment.

Attachment 4 reflects the add-back calculations for the 1994 annual access tariff filing, the only tariff filing affected by the add-back requirement for QC. The total add-back amount from the 1991 sharing of \$5,624,000 (line 5) was reduced to \$2,812,000 (line 6) to reflect the half-year effect from the reduced rates that went into effect on July 1, 1993. The add-back adjustment was modified to take account of tax expenses, and reduced to \$1,594,000. The sharing adjustment initially shown on the 1993 Initial Form 492A of \$12,231,000 (line 19, column 1) was increased by \$1,594,000 to \$13,825,000 (line 19, column 3). Thus, the amount shown on line 6 of Attachment 3 would be increased from \$12,231,000 to \$13,825,000, and appropriate modifications to the QC 1994 annual access tariff filing would have been made reducing the PCIs governing that filing by the add-back amount.

Attachment 5 shows the difference in the QC APIs and PCIs (per basket) for QC's 1994 annual access tariff filing. As can be seen, QC's 1994 prices for each basket were set significantly below the maximum allowable under the PCI established according to the price cap rules (a total of \$46,586,062).

Amending the 1993 Form 492A to reflect an additional sharing amount based on add-back of \$1,594,000 did not require that QC adjust its 1994 annual filing rates at all. Attachment 6 shows the impacts to the PCIs after the add-back is included. The add-back sharing amounts were distributed among the price cap baskets on the basis of relative revenues. After the add-back addition, QC's 1994 annual access tariff filing still showed a differential of \$44,979,759 between the QC APIs and the QC PCIs with headroom remaining in every basket.

Ms. Marlene H. Dortch
August 30, 2004

Page 3 of 3

In other words, calculating add-back sharing obligations in accordance with the *Order*³ does not require that QC amend its 1994 annual access tariff in any respect, or that it issue refunds to any party.

Please contact me at the above with any questions.

Sincerely,

/s/Melissa E. Newman

Attachments

cc: Tamara Preiss, Chief, Pricing Policy Division, Wireline Competition Bureau
(via e-mail at tamara.preiss@fcc.gov)
Julie Saulnier (via e-mail at julie.saulnier@fcc.gov)
Best Copy and Printing, Inc. (via e-mail at www.bcpweb.com)

³ *Order* ¶ 9.

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

See reverse side for information
regarding public burden estimate.

Approved By OMB
3060-0355
Expires 04/30/95

1. Name and Address of Reporting Company
U S WEST Communications Including Malheur and El Paso
1801 California St.
Denver, CO 80202

2. Reporting Calendar Year
(A) From : January 1991 to December 1991
(B) First Report Filed: March 1992
(C) Final Report Filed: March 1993

FCC 492A Report I

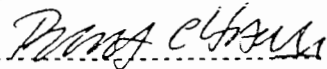
PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT
(Read Instructions on the Reverse Before Completing)
Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Col A	Final Report Col B	Difference Col C= (B - A)
1. Total Revenues	2,089,692	2,096,115	6,423
2. Total Expenses and Taxes	1,651,298	1,643,877	(7,421)
3. Operating Income (Net Return) (Ln1-Ln2)	438,393	452,238	13,845
4. Rate Base (Avg. Net Invest.)	3,642,399	3,645,651	3,252
5. Rate of Return (Ln3/Ln4)	12.04%	12.40%	0.36%
6. Sharing/Low End Adjustment Amount	0	(5,624)	(5,624)
7. FCC Ordered Refund - Amortized for Current Period	0	0	0

REMARKS

See attached

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
31-March-93	R. C. Hawk	President-Carrier and Information Providers Division	

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE
OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

FCC492A

ATTACHMENT 1

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

See reverse side for information
regarding public burden estimate.

Approved By OMB
3060-0355
Expires 04/30/95

1. Name and Address of Reporting Company
U S WEST Communications Including Malheur and El Paso
1801 California St.
Denver, CO 80202

2. Reporting Calendar Year
(A) From : January 1991 to December 1991
(B) First Report Filed: March 1992
(C) Final Report Filed: March 1993

FCC 492A Report 1

PRICE CAP REGULATION RATE OF RETURN MONITORING REPORT

REMARKS

FOOTNOTES:

(1) Pursuant to Docket 86-127 Memorandum Opinion and Order released on August 28, 1987, Paragraph 10, the out-of-period revenues identified as "Pre 1991" booked in 1991 not included in prior 492 reports amount to \$5.6M and are not included in this 492A Report.

(2) In order to remove excluded services from price cap regulation in accordance with the price cap plan, data in this report has been adjusted for the removal of excluded service offerings amounting to \$16.9M. Earnings associated with these services have been removed based on the assumption that these excluded services earned the same rate of return as total interstate services.

(3) The primary reasons for the differences in the final report are as follows:

(a) Revenues journaled in 1992/1993 relating to the 1991 time period were \$6.4M.

(b) Retroactive expense/investment adjustments.

(c) Normalization of Inside Wire/Reserve Deficiency Amortization over the tariff year as mandated in the Price Cap Reconsideration Order (July 1991 through June 1992).

(4) The following displays the calculation of the 1991 sharing amount from the 492A Report 1:

	Source:	(000)
1. Net Revenues	FCC492A Ln. 1(B)	\$2,096,115
2. Total Expense/Tax	FCC492A Ln. 2(B)	1,643,877
3. Oper. Income	FCC492A Ln. 3(B)	452,238
4. Rate Base	FCC492A Ln. 4(B)	3,645,651
5. Rate of Return	Ln. 3/Ln. 4	12.40%
6. 50% Shared Earnings	Ln. 3 - (Ln. 4 * 12.25%) *50%	2,823
7. Federal Income Tax Gross-up Amt.	Ln. 6 * FIT gross-up factor (.515151)	1,454
8. State/Local Income Tax Gross-up Amt.	Ln. 6 & 7 adj. by composite SLIT tax factor	314
9. Interest	(Lines 6 + 7 + 8) *11.25% * 24 months	1,033
10. Total Price Cap Sharing Adjustment	Lines 6 + 7 + 8 + 9	5,624

FCC492A

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

See reverse side for information
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Approved By CMB
3060-0355
Expires 04/30/95

1. Name and Address of Reporting Company
U S WEST Communications Including Malheur and El Paso
1801 California St.
Denver, CO 80202

2. Reporting Calendar Year
(A) From : January 1992 to December 1992
(B) First Report Filed: March 1993
(C) Final Report Filed: March 1994

FCC 492A

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT
(Read Instructions on the Reverse Before Completing)
Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Col A	Final Report Col B	Difference Col C= (B - A)
1. Total Revenues	2,111,211	2,118,868	7,657
2. Total Expenses and Taxes	1,661,031	1,669,585	8,554
3. Operating Income (Net Return) (Ln1-Ln2)	450,180	449,283	(897)
4. Rate Base (Avg. Net Invest.)	3,620,579	3,620,579	0
5. Rate of Return (Ln3/Ln4)	12.43%	12.41%	-0.02%
6. Sharing/Low End Adjustment Amount	0	0	0
7. FCC Ordered Refund - Amortized for Current Period	0	0	0

REMARKS

See attached

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date
31-March-94

Typed Name of Person Signing
R. C. Hawk

Title of Person Signing
President-Carrier Division

Signature

R C Hawk

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE
OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

FCC492A

ATTACHMENT 2

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

See reverse side for information
regarding public burden estimate.

Approved By OMB
3060-0355
Expires 04/30/95

1. Name and Address of Reporting Company
U S WEST Communications Including Malheur and El Paso
1801 California St.
Denver, CO 80202

2. Reporting Calendar Year
(A) From: January 1992 to December 1992
(B) First Report Filed: March 1993
(C) Final Report Filed: March 1994

FCC 492A

PRICE CAP REGULATION

RATE OF RETURN MONITORING REPORT

(Read Instructions on the Reverse Before Completing)

Dollar Amounts Shown in Thousands

REMARKS

FOOTNOTES:

(1) Pursuant to Docket 86-127 Memorandum Opinion and Order released on August 28, 1987, Paragraph 10, the out-of-period revenues identified as "Pre 1992" booked in 1992 not included in prior 492 reports amount to \$.5M and are not included in this 492A Report.

(2) In order to remove excluded services from price cap regulation in accordance with the price cap plan, data in this report has been adjusted for the removal of excluded service offerings amounting to \$17.2M. Earnings associated with these services have been removed based on the assumption that these excluded services earned the same rate of return as total interstate services.

(3) The primary reasons for the differences in the final report are as follows:
(a) Revenues journaled in 1993 relating to the 1992 time period were \$7.7M.
(b) Retroactive tax adjustments of \$8.6M.

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

See reverse side for information
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Approved By OMB
3060-0355
Expires 04/30/95

1. Name and Address of Reporting Company
U S WEST Communications Including Malheur and El Paso
1801 California St.
Denver, CO 80202

2. Reporting Calendar Year
(A) From: January 1993 to December 1993
(B) First Report Filed: April 1994 (Revised)
(C) Final Report Filed:

FCC 492A

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT
(Read Instructions on the Reverse Before Completing)
Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Col A	Final Report Col B	Difference Col C = (B - A)
1. Total Revenues	2,198,180	0	0
2. Total Expenses and Taxes	1,712,647	0	0
3. Operating Income (Net Return) (Ln1-Ln2)	485,533	0	0
4. Rate Base (Avg. Net Invest.)	3,564,171	0	0
5. Rate of Return (Ln3/Ln4)	13.62%	0.00%	0.00%
6. Sharing/Low End Adjustment Amount	(12,231)	0	0
7. FCC Ordered Refund - Amortized for Current Period	0	0	0

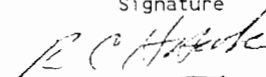
REMARKS

See attached

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date Typed Name of Person Signing Title of Person Signing
22-April-94 R. C. Hawk President-Carrier Division

Signature



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FCC492A

ATTACHMENT 3

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

See reverse side for information
regarding public burden estimate.

Approved By OMB
3060-0355
Expires 04/30/95

1. Name and Address of Reporting Company
U S WEST Communications Including Malheur and El Paso
1801 California St.
Denver, CO 80202

2. Reporting Calendar Year
(A) From: January 1993 to December 1993
(B) First Report Filed: April 1994 (Revised)
(C) Final Report Filed:

FCC 492A

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT
(Read Instructions on the Reverse Before Completing)
Dollar Amounts Shown in Thousands

REMARKS:

(1) Pursuant to Docket 86-127 Memorandum Opinion and Order released on August 28, 1987, Paragraph 10, the out-of-period revenues identified as "Pre 1993" booked in 1993 not included in prior 492 reports amount to \$.3M and are not included in this 492A Report.

(2) In order to remove excluded services from price cap regulation in accordance with the price cap plan, data in this report has been adjusted for the removal of excluded service offerings amounting to \$23.0M. Earnings associated with these services have been removed based on the assumption that these excluded services earned the same rate of return as total interstate services.

(3) This report has been revised from the initial submission to be in compliance with R.A.O. Letter 24 released by the F.C.C. on March 24, 1994.

(4) The following displays the calculation of the 1993 sharing amount from the 492A Report:

DESCRIPTION:	SOURCE:	(000)
1. Net Revenues	FCC492A Ln. 1 (A)	2,198,180
2. Total Expense/Tax	FCC492A Ln. 2 (A)	1,712,647
3. Operating Income	FCC492A Ln. 3 (A)	485,533
4. Rate Base	FCC492A Ln. 4 (A)	3,564,171
5. Rate of Return	Ln. 3/Ln. 4	13.62%
6. 50% Shared Earnings	Ln. 3 - (Ln. 4 * 13.25%) * 50%	6,640
7. Federal Income Tax Gross-up Amount	Ln. 6 * FIT gross-up factor (.538462)	3,575
8. State/Local Income Tax Gross-up Amount	Ln. 6 & 7 adj. by composite SLIT tax factor	779
9. Interest	(Lines 6 + 7 + 8) *11.25%	1,237
10. Total Price Cap Sharing Adjustment	Lines 6 + 7 + 8 + 9	12,231 -----

ATTACHMENT 4

Qwest Corporation

Workpaper X-1
Page 1 of 1

CALCULATION OF 1993 ADD-BACK AND SHARING (\$000)

	Amount		
1. 1990 (No Sharing Mechanism)	0		
2. 1991 Sharing, First Report	0		
3. 1991 Sharing, Final Report	5,624		
4. 1992 Sharing, First Report	0		
5. Subtotal Form 492A Sharing (Line 1 through Line 4)	5,624		
6. Total Addback related to 1993 Sharing (Line 6 x .5 (6 mos))	2,812		
<u>Tax Expense Calculation</u>			
7. State/ Local Tax Composite Rate @ 5.45%	153		
8. Federal Income Tax @ 33%	928		
9. Total Tax Expense Change (Line 7 + Line 8)	1,081		
		Form 492A Dated 4/22/1994 Before Addback	Addback Amounts
			Illustrative 1993 Sharing Calculation with Add-Back
10. Total Revenues (492A, Line 1 + Line 6 above)	2,198,180	2,812	2,200,992
11. Total Expenses and Taxes (Form 492A, Line 2 + Line 9 above)	1,712,647	1,081	1,713,728
12. Operating Income (Line 10-Line 11)	485,533	1,731	487,264
13. Rate Base (Form 492A, Line 4)	3,564,171	0	3,564,171
14. Rate of Return (Line 12 / Line 13)	13.62%	N/A	13.67%
15. 50% Shared Earnings ((Line 14 - 13.25%) * Line 13) * 0.5	6,640		7,506
16. Federal Income Tax Gross-up Amount (Line 15 * 0.5384)	3,575		4,041
17. State/Local Income Tax Gross-up Amount (Lines 15 +16 * 0.0762)	779		881
18. Interest (Lines 15 + 16 + 17)	1,237		1,398
19. Total Price Cap sharing Adjustment (Lines 15 + 16 + 17 + 18)	12,231		13,825

Headroom Analysis

1994 Annual Filing

As Filed Originally

	COMMON LINE BASKET	TRAFFIC SENSITIVE BASKET	TRUNKING BASKET	INTEREXCHANGE BASKET
	(A)	(B)	(C)	(D)
GNP-PI	2.8363	2.8363	2.8363	2.8363
Productivity Factor (X)	4.3000	4.3000	4.3000	4.0000
GNP-PI - X	-1.4637	-1.4637	-1.4637	-1.1637
Y(t-1)	N/A	N/A	N/A	14,535,746
Delta Y	N/A	N/A	N/A	(529,749)
Delta Z	26,096,257	(4,025,936)	(8,374,830)	(249,998)
R(t-1)	907,109,387	398,484,701	790,345,025	52,716,572
Delta Y/R	N/A	N/A	N/A	-1.00
Delta Z/R	2.8769	-1.0103	-1.0596	-0.4742
W	102.8769	98.9897	98.9404	71.9524
W*(GNP-PI - X)	N/A	-1.4489	-1.4482	-0.8373
Growth in Min./Line (g)	4.8356	N/A	N/A	N/A
W*[GNP-PI - X - (g/2)] / [1 + (g/2)]	-3.8989	N/A	N/A	N/A
Existing PCI	89.7876	86.2440	88.3578	93.9265
Proposed PCI	88.8699	84.1231	86.1419	91.7507

T# 472

Errata to the 1994 Annual Access Charge Tariff filing

	INDICES	REVENUES	HEADROOM
COMMON LINE			
PCI	88.8699		
MAXIMUM	0.006828	912,859,394	
CURRENT	0.006600	903,623,175	
			9,236,219
TRAFFIC SENSITIVE			
PCI	84.1231	399,322,244	
API	82.3281	390,801,746	
			8,520,498
TRUNKING			
PCI	86.1419	787,672,753	
API	83.0160	759,089,537	
			28,583,216
INTEREXCHANGE			
PCI	91.7507	51,944,006	
API	91.3160	51,697,876	
			246,130
TOTAL HEADROOM			46,586,062

ATTACHMENT 6

Headroom Analysis

1994 Annual Filing

Illustrative with Additional Add Back included in the exogenous costs

	COMMON LINE BASKET	TRAFFIC SENSITIVE BASKET	TRUNKING BASKET	INTEREXCHANGE BASKET	Diff 1994 as filed vs 1994 with Addback
	(A)	(B)	(C)	(D)	
GNP-PI	2.8363	2.8363	2.8363	2.8363	
Productivity Factor (X)	4.3000	4.3000	4.3000	4.0000	
GNP-PI - X	-1.4637	-1.4637	-1.4637	-1.1637	
Y(t-1)	N/A	N/A	N/A	14,535,746	
Delta Y	N/A	N/A	N/A	(529,749)	
Delta Z	25,423,106	(4,321,645)	(8,961,332)	(289,118)	(1,594,483)
R(t-1)	907,109,387	398,484,701	790,345,025	52,716,572	
Delta Y/R	N/A	N/A	N/A	-1.00	
Delta Z/R	2.80265050	-1.0845	-1.1339	-0.5484	
W	102.8027	98.9155	98.8661	71.8782	
W*(GNP-PI - X)	N/A	-1.4478	-1.4471	-0.8364	
Growth in Min./Line (g)	4.8356	N/A	N/A	N/A	
W*[GNP-PI - X - (g/2)]	-3.8961	N/A	N/A	N/A	
/ [1 + (g/2)]					
Existing PCI	89.7876	86.2440	88.3578	93.9265	
Proposed PCI	88.8058	84.0600	86.0773	91.6819	

T# 472 Redone with additional addback included in Exogenous
Errata to the 1994 Annual Access Charge Tariff filing

	INDICES	REVENUES	HEADROOM
COMMON LINE			
PCI	88.8058		
MAXIMUM	0.006811	912,182,227	
CURRENT	0.006600	903,623,175	
			8,559,052
TRAFFIC SENSITIVE			
PCI	84.0600	399,022,889	
API	82.3281	390,801,746	
			8,221,143
TRUNKING			
PCI	86.0773	787,081,973	
API	83.0160	759,089,537	
			27,992,436
INTEREXCHANGE			
PCI	91.6819	51,905,004	
API	91.3160	51,697,876	
			207,128
TOTAL HEADROOM			44,979,759